Remarks of Alan Lindstrom, Senior Group Director of Investor Relations

Safe Harbor Statement
Thank you operator, and welcome everyone to our fourth quarter 2016 earnings conference call.

With me today are Lip-Bu Tan, President and CEO, and Geoff Ribar, Senior Vice President and CFO. The webcast of this call can be accessed through our website cadence.com and will be archived through March 17, 2017.

A copy of today’s prepared remarks will also be available on our website at the conclusion of today’s call.

Before we start I want to call your attention to our CFO Commentary which was included in our 8-K filing today and is available on our Investor Relations website at cadence.com. The CFO Commentary should be referenced with both today’s conference call remarks and the earnings press release issued today.

Next, please note that today’s discussion will contain forward-looking statements and that our actual results may differ materially from those expectations.
For information on the factors that could cause a difference in our results, please refer to our filings with the Securities and Exchange Commission. These include Cadence’s most recent reports on Form 10-K and Form 10-Q, including the company’s future filings, and the cautionary comments regarding forward-looking statements in the earnings press release issued today.

In addition to the financial results prepared in accordance with Generally Accepted Accounting Principles, or GAAP, we will also present certain non-GAAP financial measures today.

Cadence management believes that in addition to using GAAP results in evaluating our business, it can also be useful to measure results using certain non-GAAP financial measures.

Investors and potential investors are encouraged to review the reconciliation of non-GAAP financial measures with their most direct comparable GAAP financial results, which can be found in the quarterly earnings section of the investor relations portion of our website.
Remarks of Lip-Bu Tan, President and Chief Executive Officer

Good afternoon everyone and thank you for joining us today.

2016 was another great year for Cadence, and I am pleased to talk to you about our results, accomplishments, and strategic direction.

We delivered strong financial results in the fourth quarter and the full year:

- Revenue of $469 million in Q4, and $1.816 billion for the year, representing growth of 6.7 percent over 2015.
- Non-GAAP operating margin was 27 percent for the quarter, and 26 percent for the year.
- Non-GAAP EPS was 34 cents in Q4, and $1.21 for the year, up 11 percent over 2015.

Now I will address the environment and strategy before turning to the 2016 product highlights.

Starting with the environment:

- Semiconductor business conditions appear to have improved slightly with expectations of low-single digit growth for 2017. Expected improvements are sector-specific though, and macro uncertainty remains.
- We are focused on key emerging and higher growth areas including automotive, virtual and augmented reality, cloud infrastructure, IoT, machine learning, and aerospace and defense.
- We have successfully managed through the ongoing customer consolidation to date. We expect just a minimal impact on revenue from consolidation in 2017 and believe we are successfully positioned for larger opportunities in the future.
- At the same time, our relentless focus on innovation, execution, and customer success is driving momentum in the marketplace for us, and opportunities continue to grow with systems companies.
Turning now to our strategy. We are steadily executing our System Design Enablement – or SDE – strategy, the key points of which are to

- Drive increased adoption of our Core EDA portfolio,
- Leverage our refined IP strategy for scalable growth,
- Maximize the market opportunity of our System solutions,
- Invest in emerging and new growth areas, and,
- Develop partnerships with an expanded Ecosystem

SDE offers additional growth opportunities, as we expand beyond a horizontal focus on semiconductors, and tap into a significantly larger market through addressing systems companies and new vertical market segments.

In 2016 we made measurable progress executing our SDE strategy:

- Expanding our ecosystem is important to developing opportunities outside of our traditional markets. We announced several important partnerships for our SDE ecosystem in 2016. For example:
  - Cadence and Arrow Electronics launched an integrated, cloud-based version of our OrCAD Capture.
  - We partnered with MathWorks to streamline system-level design and circuit-level implementation for mixed-signal IoT and automotive applications.
- We grew our systems business in aerospace and defense, with expanded partnerships with Northrop Grumman and BAE Systems.
Let me now turn to some of our product highlights and customer successes in Q4 and 2016.

Innovation is at the heart of our success and we have introduced nearly 20 significant products over the past three years. Several of our products won awards in 2016, including the Palladium Z1 and Virtuoso Analog Design Environment, and we have a robust product pipeline planned for 2017.

Investments in our digital and signoff products are beginning to pay off as we gained even more momentum with the Top-20 semiconductor companies. Revenue was up nearly 20 percent for the year with these customers; overall digital and signoff growth was 9 percent for the year. We are set-up for additional proliferation in 2017.

- We added 60 Genus customers, 30 Innovus customers, and more than 20 new customers using our full digital and signoff flow.
- Sixteen of the Top-20 semiconductor companies are now using Innovus, including 4 of the 5 top mobile chip makers.
- Innovus was used to tape-out a large GPU design, which helped a customer realize 15 percent power savings over the previous design.
- We are currently working with over 45 companies on advanced node design, with more than a dozen 7-nanometer engagements.
- In Q4, Qualcomm entered into an agreement with Cadence that represents an expanded commitment to Cadence products, including hardware and IP.

Our Verification Suite provides complementary connected solutions that are based on strong core engines. It includes Incisive for simulation, JasperGold for formal verification, Palladium for emulation, and Protium for FPGA prototyping.

- I am pleased to report that Palladium Z1 had a phenomenal first full year on the market.
  - Total hardware revenue surged to a record high.
  - We gained 29 new Palladium Z1 logos in 2016, 11 of which were systems companies, and it is the fastest adoption of a new emulation system in Cadence history.
In Q4, several leading semiconductor companies adopted Palladium Z1, including Cavium and Innovium.

Customer demand for the Palladium Z1 remains strong due to its enterprise-class capabilities, which are ideally suited for large emulation farms.

We expect another strong year in 2017.

- JasperGold, which is the formal verification segment leader, continued its adoption and proliferation, leading to record revenue in 2016.
- Integration of the proven Rocketick technology with our simulation platform has gone very well. Feedback from key customers in early adopter engagements on the integrated platform has been very positive, with significant simulation speedup due to the revolutionary multi-core parallel simulation technology.

For **custom, analog, and mixed-signal design**, Cadence continues to invest in and deliver the most advanced set of custom, analog and mixed-signal tools.

- Adoption of our next-generation products like the new Virtuoso Analog Design Environment Suite is ahead of our expectations.
- Virtuoso Advanced Node is now being used by over 100 customers.
- Over 70 customers are using Spectre XPS, our fast spice simulator, on SRAM designs, and we are expanding into mixed-signal applications.

It was a solid year for our **package and board** business.

- We delivered a comprehensive system design solution for TSMC’s advanced wafer-level Integrated Fan-Out packaging technology, known as InFO, and
- We released our next generation Allegro and OrCAD product families with support for flexible board designs, and,
- We just delivered our newest version of the Sigrity analysis portfolio, which significantly speeds up power and signal integrity signoff for boards.
Next I will talk about our **IP business**, which is a key component of the SDE strategy and an important business for us. The IP market opportunity remains strong, as outsourcing continues.

- 2016 was a year of strategic refinement.
- We are significantly increasing our focus on:
  - Standardized, off-the-shelf IP,
  - Certain strategic vertical market segments, and
  - The most advanced process nodes.
- Our IP business returned to year-over-year growth in Q4, and we expect about 10% growth for 2017.
- IP highlights from 2016 included:
  - The largest ever renewal for our Tensilica technology.
  - The announcement by Microsoft that 24 Tensilica processors are at the heart of the HoloLens.
  - The delivery of 7-nanometer DDR IP to a top-tier Asia-Pacific customer.
- Q4 highlights included a large design IP contract with a Japanese customer primarily for automotive applications, and adoption of our datacenter IP by a large U.S. semiconductor company.
- On the organizational front, I’m sad to report that Pieter Vorenkamp recently left Cadence in order to spend more time with his family after the death of his son last year.
  - We were fortunate that Babu Mandava, a longtime colleague of mine, could step in as our senior vice president and general manager of the IP Group.
  - Babu has been a CEO and held multiple senior operating roles at semiconductor companies. I am confident Babu will drive scalable, sustainable, and profitable growth for our IP business.

Finally, I am pleased that Geoff Ribar has decided to extend his retirement date by a year. Geoff is an accomplished CFO, an important business partner to me and an invaluable leader at Cadence.
Before turning it over to Geoff, let me quickly summarize my comments:

- 2016 was another great year for Cadence and we are well positioned for 2017.
- System Design Enablement is expanding our opportunities beyond EDA and extending our customer reach.
- Our digital and signoff tools are well on their way for advanced node design with market-shaping customers.
- Customer enthusiasm for the Palladium Z1 led to a record year for hardware.
- Our refined IP strategy sets us up to drive scalable, profitable growth.
- Our next-generation tools are helping customers succeed and are solidifying our position as the leader for custom, analog, and mixed-signal design.

There are macro challenges ahead, but also opportunities specific to Cadence. Through innovation and execution, we are well positioned to build on our success and to further proliferate our solutions with market-shaping customers.

**Remarks of Geoff Ribar, Senior Vice President and Chief Financial Officer**

Thanks Lip-Bu, and good afternoon everyone. 2016 was a great year for Cadence all-around – we delivered strong innovation, customer successes, execution, and robust financial results. Overall we are in a good position as we start 2017. Key results for Q4 and 2016 were:

- Total revenue of 469 million dollars for the quarter, and 1.816 billion for the year.
- Non-GAAP operating margin was 27 percent for the quarter, and 26 percent for the year.
- GAAP net income per share was 14 cents for the quarter, and 70 cents for the year.
- Non-GAAP net income per share was 34 cents for the quarter, and $1.21 for the year.
- Operating cash flow was 197 million dollars for Q4, and 445 million dollars for the year.
  - Stronger than expected collections in Q4 drove the operating cash flow upside.
Also note that:

- Bookings were 2.057 billion dollars for 2016.
- Weighted average contract life was 2.6 years for both Q4 and 2016.
- The recurring bookings and revenue mix was approximately 90 percent for 2016.
- DSO at the end of the year was 33 days, down 1 day from Q3.

Primarily due to the end-of-life of Palladium XP, we recorded an inventory charge of 13 million dollars for Q4, following a charge of 5 million dollars in Q3.

As part of our ongoing effort to operating efficiently and effectively and optimally allocate resources, we undertook a restructuring in Q4, which resulted in a charge of 26 million dollars. This included the cost of the voluntary retirement program that we announced on our last earnings call.

Earlier this week Cadence entered into a new five-year 350 million dollar senior unsecured revolving credit facility with a group of lenders. This credit facility replaces the 250 million dollar facility originally entered into in December 2012.

We also completed our 1.2 billion dollar stock repurchase program in Q4 with the purchase of 9.3 million shares of stock for 240 million dollars.

- Over the course of the program we repurchased a total of 51.9 million shares – about 18 percent of shares outstanding at the start of the program.

Also this week, the Cadence board of directors renewed its commitment to optimizing capital allocation and shareholder value by authorizing the repurchase of 525 million dollars of Cadence stock.

- The actual timing and amount of repurchases will be subject to business and market conditions, corporate and regulatory requirements, acquisition opportunities and other factors.
Financial Outlook

For fiscal 2017 we expect:

- Revenue in the range of 1.90 to 1.95 billion dollars, which would be 6 percent growth at the midpoint.
- Non-GAAP operating margin of approximately 27 percent.
- GAAP EPS in the range of 89 to 99 cents.
- Non-GAAP EPS of $1.32 to $1.42, and
- Operating cash flow in the range of 430 to 470 million dollars.

And for Q1 we expect:

- Revenue in the range of 470 to 480 million dollars.
- Non-GAAP operating margin of approximately 25 percent.
- GAAP EPS in the range of 19 to 21 cents, and
- Non-GAAP EPS in the range of 30 to 32 cents.
- Approximately 90 percent of revenue is expected to come from beginning backlog.

You will find guidance for additional items in the CFO Commentary.

I want to add a few additional comments on the outlook.

- Bookings for 2017 are expected to exceed 2 billion dollars with a weighted average contract life of 2.4 to 2.6 years.
  - Going forward, we do not intend to comment on bookings or weighted average contract life.
  - We introduced bookings guidance in the early days of the license model transition but the model has now been mature for several year now.
  - Retaining flexibility over the timing of bookings will facilitate our goal of driving consistent, scalable revenue growth, within the context of a stable revenue recognition model, while preserving the quality of bookings.
- I also want to remind you, as I have in the past, that as hardware and IP have become a larger portion of our business, there may be more variation in quarter to quarter results.
I will conclude by talking about my own plans. As you know by now I am extending my retirement date until March 31, 2018. Cadence is very important to me and I decided that I want to continue to partner with Lip-Bu for another year as we drive the company forward toward our goals.

Remarks of Lip-Bu Tan, President and Chief Executive Officer

In closing, 2016 was a year of great success, and 2017 presents us with exciting opportunities. I would like to thank all of our shareholders, customers and partners, board of directors, and hardworking employees for their continued support.

Thank you all for joining us this afternoon.